

Summary of Testimony by Alison T. Borland, Hewitt Associates LLC, on 401(k) Fair Disclosure for Retirement Security Act of 2009— April 22, 2009

Hewitt appears today at the Subcommittee's request to provide insights on the experiences of mid- to large-sized employers in their role as 401(k) plan fiduciaries. Hewitt is in a unique position to provide these perspectives as the largest independent provider of administration services for retirement plans serving more than 11 million plan participants.

The focus of our testimony today is to make a case for much greater transparency in the disclosure of fees by service providers to plan fiduciaries. Now more than ever, employees need to accumulate the greatest retirement savings possible for every dollar saved. Our experience shows that increased fee transparency increases fiduciaries' understanding and their negotiating power, ultimately leading to lower fees and higher retirement benefits for participants.

Plan Fiduciaries Must Understand All Fees

Plan fiduciaries cannot fulfill their obligations without clear and concise fee disclosures from service providers. Further, these fees must be disclosed in a manner that allows for ready and consistent comparisons. Without a uniform basis of disclosure, plan fiduciaries cannot make the best decisions. The disclosures required under current law are both unclear and insufficient, and the Department of Labor's proposed regulations on 408(b)(2) also fall short.

Service Providers Must Fully Disclose Fee Details

To fully meet their obligations, fiduciaries must understand the most significant fee components of their plans and the services covered by these costs. Uniform disclosure rules that permit meaningful fee comparisons will help fiduciaries better evaluate the costs of services among competing service providers even when different packaging and pricing methods are used. It is especially important that plan sponsors understand the embedded cost of services that a service provider may wrap into a single price and represent as "free." In addition to evaluating the reasonableness fees at the time of contract signing, fiduciaries need to consider the impact of fees on an ongoing basis to understand how they may change over time.

Breaking Out Fees Increases Knowledge and Negotiating Power

Typical plans have investment management, administrative, trustee, and other miscellaneous fees. Investment management and administrative fees generally account for more than 90 percent of individual account plan costs. Obtaining a breakout of per participant administrative fees from asset based fees, plan fiduciaries gain improved negotiating power and have the information needed to more effectively model how these fees may fluctuate over time with changing asset values and participant size.

A Real-World Example of the Benefits of Uniform and Detailed Fee Comparisons

In our work with large employers, Hewitt finds that detailed and uniform fee comparisons across different types of service providers often results in lower negotiated fees. Armed with disclosure of fee components, the plan fiduciary can consider alternate providers, evaluate lower-cost fund options, and/or negotiate lower fees with the current provider. Lower fees directly benefit plan participants by increasing their account balances and compounding this savings throughout their working years.

Hewitt recently worked with a client that wanted to evaluate the benefits of combining two separate 401(k) plans it sponsored through two different service providers. Administrative fees had not been broken out for the more expensive of the two plans in the past, resulting in a wide differential in per participant fees of just over \$50 per participant for one plan to more than \$100 per participant for the second plan.

Unbundling the administrative fees from the investment management fees provided the company with the ability to look closely at the investment choices and evaluate the administration services in greater depth. This resulted in the selection of institutional funds (non-mutual fund vehicles) and a significant reduction in administrative costs through negotiation of per participant fees. As a result, the combined fee structure across both plans dropped by nearly half, including administrative fees of just over \$40 per participant. The approximately \$2 million of annual savings in administrative fees accrued directly and entirely to participants. Total fees decreased nearly \$7 million per year.

Plan Sponsors Need Unbiased Information About Revenue Sources

Service providers often generate revenue streams by providing services to 401(k) plan participants that are unrelated to the 401(k) plan. It is critical that all potential sources of revenue generated from servicing the plan are disclosed so that the plan sponsor can identify and control conflicts of interest that may affect plan participants. For example, service providers may directly market products like retail IRAs, other retail investment products, or life insurance products to this captive audience. Plan sponsors must understand the incentives that may exist for service providers to encourage participant behaviors that may not be in their best interest because they do not contribute to greater retirement security.

Participants Need Better Fee Disclosure

While Hewitt believes that comprehensive fee information should be readily accessible when requested, mandatory disclosures should be concise and provide information that is truly meaningful for the vast majority of participants. Mandatory disclosures should aid participants in understanding fees on their account balances, but not confuse their decision making or overwhelm them with information they cannot control. For example, if participants simply move their portfolios toward the lowest-cost funds solely based on the fee information provided, this may decrease their retirement readiness. Many participants do not have the basic financial acumen to understand the importance of diversifying their portfolio and changing that asset allocation over time based on their changing personal circumstances. Greater disclosure will not solve these critical awareness issues. This is where investment advice, education, and certain plan design features can make a real difference.

The 401(k) Fair Disclosure for Retirement Security Act of 2009 Can Help

Hewitt supports Chairman Miller's bill because its provisions enhance the retirement security of Americans. The bill addresses the key disclosure gaps from both a plan sponsor and a plan participant perspective and does not allow service provider exemptions that get in the way of full transparency.

Conclusion

Hewitt believes that complete fee transparency is a key factor in maintaining a strong defined contribution retirement plan system. Knowledge is power, and by arming plan sponsors with complete and comparable information, they will be better equipped to negotiate and provide high-quality plans for their participants at reasonable costs. The current economic and financial environment makes it even more important to provide uniform fee transparency in 2009. Hewitt would be pleased to offer our data analysis, our experience, and our consulting and administration expertise in helping the Subcommittee complete its work on this issue.